October and April followed closely with 14 percent and 13 percent, respectively. The remainder of the calendar in terms of busiest sales months is: November, March, June, February, September, July and December (tied), and January and August (tied).

Nearly half of the responding fleets said they have no plans to change any facet of their operation in order to positively affect their used vehicle marketing efforts.

For the other half planning a change in their vehicle marketing, 28 percent said they will use another make or model of vehicle in their fleets in order to enhance their resale market. Another 23 percent said they will change their replacement cycles: three in 10 will keep the vehicles in service more months and miles; another 30 percent said they will keep vehicles in service fewer months and miles, four in 10 will do something "other" than those options. AF

Indicate your actual, written replacement policies for each type of vehicle:

U.S. Fleets	Drugs & Cosmetics	Chem. & Petroleum	Public Utility	Comm.	Food & Beverage	Indus. Manf.	Govt. & Law Enfor.	Service Org.	Insurance	Consum. Manf.	Banking/ Financial	Elect.	Other	Total
Cars:														
Mean Months	36	35	70	36	34	37	62	41	37	36	32	No	37	44
Mean Miles	55,294	73,214	75,357	64,000	61,000	58,283	73,837	72,857	54,897	61,053	53,182	Response	62,000	64,028
Med. Months	36	36	72	36	36	36	60	36	36	36	30		36	36
Med. Miles	55,000	67,500	77,500	60,000	60,000	50,000	70,000	75,000	50,000	60,000	55,000		60,000	60,000
Mode Months	36	36	72	24	36	36	60	24	36	36	24		36	36
Mode Miles	55,000	60,000	80,000	60,000	60,000	60,000	60,000	75,000	50,000	60,000	50,000		60,000	60,000
Light-Duty:														
Mean Months	43	47	78	40	40	46	77	45	52	47	39	No	48	60
Mean Miles	71,250	84,231	73,572	60,000	77,222	80,714	78,146	75,000	60,667	73,125	70,000	Response	60,000	75,370
Med. Months	36	42	84	36	36	45	72	42	48	39	36		48	60
Med. Miles	65,000	75,000	80,000	60,000	65,000	77,500	75,000	72,500	62,500	68,750	60,000		60,000	75,000
Mode Months	36	36	60	24	36	36	60	24	36	24	36		48	60
Mode Miles	55,000	78,500	80,000	60,000	60,000	100,000	75,000	55,000	70,000	55,000	60,000		60,000	60,000
Minivans:														
Mean Months	37	30	71	30	36	36	70	41	57	36	37	No	33	49
Mean Miles	57,083	67,857	78,182	60,000	62,556	61,059	74,833	77,000	56,750	62,273	66,250	Response	65,000	66,992
Med. Months	36	30	60	30	36	36	60	36	48	36	37		33	38
Med. Miles	55,000	70,000	80,000	60,000	60,000	60,000	73,500	75,000	50,000	60,000	57,500		65,000	65,000
Mode Months	36	24	60	24	36	36	60	12	36	36	36		30	36
Mode Miles	55,000	60,000	80,000	60,000	60,000	60,000	75,000	55,000	50,000	56,000	50,000		60,000	60,000

Indicate how many of each type of vehicle you marketed through each method:

U.S. Fleets	Drugs & Cosmetics	Chem. & Petroleum	Public Utility	Comm.	Food & Beverage	Indus. Manf.	Govt. & Law Enfor.	Service Org.	Insurance	Consum. Manf.	Banking/ Financial	Elect.	Other	Total
Cars:														
To employees	898	417	242	35	489	1,127	8	307	761	1,246	324	No	10	5,864
Auto Auction	1,812	329	1,272	42	1,208	339	1,094	106	1,039	3,400	96	Response	19	10,756
Wholesalers/Brokers	349	365	340	30	375	610	476	0	202	637	129		2	3,315
Used-Car Dealer Trade-In to New-Car Dealers	0	0	137	7	20	305	0	0	95	1	67		0	652
Salvaged	0	0	12	0	524	63	5	0	559	0	6		2	1,189
Other	103	10	11	0	30	30	11	39	26	84	13		0	357
	301	99	227	0	21	1	1,847	114	148	56	0		6	2,820
Light-Duty:														
To employees	4	282	134	0	43	148	0	31	1	11	14	No	15	683
Auto Auction	8	138	2,312	9	22	125	18	45	35	21	10	Response	50	2,950
Wholesalers/Brokers	4	95	1,372	6	222	223	386	0	0	94	100		10	2,512
Used-Car Dealer Trade-In to New-Car Dealers	3	4	333	2	0	0	0	0	0	9	5		0	356
	0	1	25	0	7	1	1	0	0	0	2		0	37
Salvaged	0	17	21	5	6	7	4	21	0	36	0		0	119
Other	0	263	529	0	0	1	192	24	1	0	0		0	1,010
Minivans:														
To employees	92	13	7	0	8	78	4	35	1	35	0	No	No	273
Auto Auction	171	17	577	1	3	76	3	39	1	110	3	Response	Response	1,000
Wholesalers/Brokers	23	8	29	0	11	46	6	0	0	25	1			149
Used-Car Dealers Trade-In to New-Car Dealers	1	0	29	0	0	61	0	0	0	0	6			97
	0	0	0	0	6	0	0	0	0	0	0			6
Salvaged	3	0	6	0	2	0	9	2	4	2	0			24
Other	4	0	317	0	0	0	0	4	0	2	0			327
Total	3,775	2,058	7,932	137	2,989	3,250	4,055	767	2,868	5,769	776	No Response	114	34,696

The pride of ownership is being overruled by the public in favor of economic survival. Leasing allows consumers to drive new cars with low monthly payments with the the option to buy the vehicle at the end of the lease.

Leasing Popularity Rapidly Grows

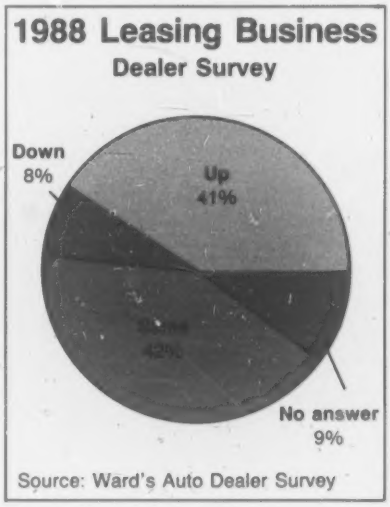
When Los Angeles construction worker Tom Alvarez leased his Ford Escort for $99 a month (excluding taxes or other fees), he joined the ranks of doctors, lawyers, and corporate leaders who have given up owning automobiles.

He became part of the platoons of "regular folks" who are swallowing their desire to own an automobile and turning to leasing to keep monthly payments low and a new car in the driveway.

"It's like rent-to-own," Alvarez says. "If I want the car at the end of the lease, I can buy it." The chances he'll purchase the 1989 Ford Escort at the end of his four-year lease are small. The residual value he would have to pay is in excess of $5,000. But that wasn't a deterrent. It was a way for Alvarez to get into a new car for a small monthly payment and keep the ownership option open.

Leasing is becoming so popular in Middle America that by 1995 one of every two automobiles in the U.S. could be leased rather than sold, according to a *Ward's Auto Dealer* survey of automakers, dealers, and executives in auto-related industries.

Reasons for the growth range from changes in the tax laws that eliminate interest deductions on loans to longer loan agreements.



"There will be a time when (retail) leasing grows to three-quarters of the market, and we'll be alive to see that day."

—a GMAC executive
speaking at
NADA's 1989 convention

"Leasing has already made significant inroads into the retail automobile market," says Dennis Thee, vice president of sales and marketing for Anglo American Auto Auctions in Nashville, TN. "It is the force of the '90s."

His company already is seeing an increasing number of off-lease cars in the middle and lower price ranges at auction.

The survey shows leasing now accounts for upwards of 70 percent of automobile deliveries for some dealers. While the nationwide retail lease average (not including fleet or corporate deliveries) is approximately 20 percent, hot markets are in the 40- to 50-percent range.

By 1995, in some markets — such as New York and certain counties in California — more than three of every four cars will be leased, not sold. In a national spot check of leasing penetration, the growth of leasing has taken off.

In Detroit, for example, leasing accounted for less than eight percent of retail deliveries in 1984. Today, however, it has climbed to over 17 percent.

Chicago's lease penetration has risen from 11 percent to 28 percent, while New York and Los Angeles are in the 50-percent range today, compared with 30 percent five years ago.

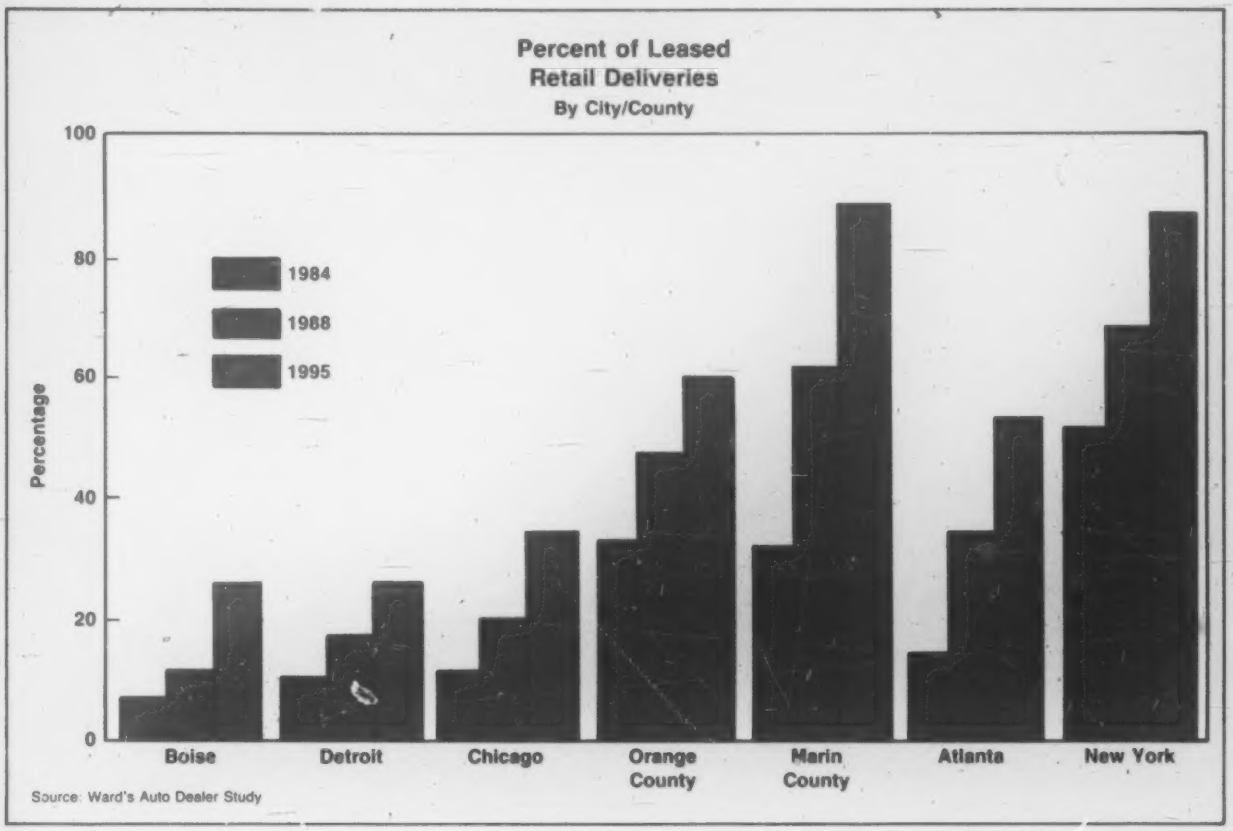


Table 1

"There will be a time when leasing grows to three-quarters of the market, and we'll be alive to see that day," one GMAC executive told dealers at last February's NADA convention.

More important than the growth is the evolution of graded lease paper and new ways of determining residual values.

Richard Watt founded Autc Lender Finance Co. in Laguna Hills, CA barely three years ago. His idea was simple: Provide automobile dealers with a play book that allows them to grade lease paper easily, calculate their income, advances, lease rates, and other factors.

The company simplifies the definitions of "A," "B," and "C" paper, so even a beginner can write a contract, submit the paperwork, and receive a solid chance of approval (see Tables 1 and 2). The program is working.

The company, which now enjoys sales approaching a half-billion dollars, started in California with five employees in January 1987 and no dealer clients. Today, it has about 230 employees, operates in eight states, and has 2,000 dealer clients.

For lenders, lease contracts are running about 80 percent "A" paper, 16 percent "B" paper, and four percent "C" paper. Watt expects to see a substantial increase in the lower grades over the coming few years.

The potential for leasing to grow into a dominant market force, however, worries some analysts. They are concerned about the volatility of residual values.

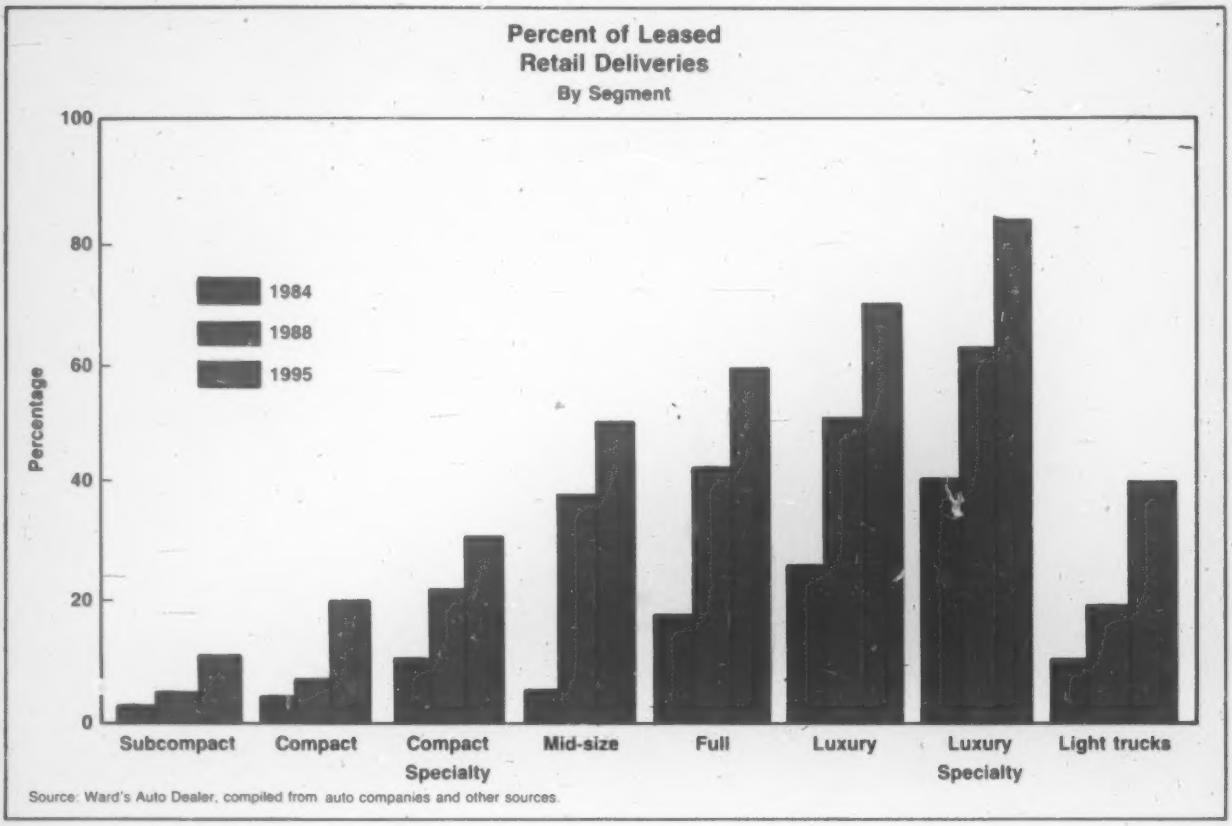
Residual values are astonishingly different and competitive. The same vehicle — such as Alvarez's Escort — can have an end-of-lease price differential of $2,000 and a monthly payment difference of $30 to $50.

On time-proven luxury car leases, those figures are inconsequential, but with the leasing forays into Middle America, the monthly payment and residual value become critical points of discussion between dealer and customer, and crucial in a dealer's profit and loss columns.

"The return on off-lease cars in the Northeast has been lagging," says Thee. "It worsened last year."

Auction companies report the dollar return, on average, is $300 to $500 higher in the Midwest than the Northeast. The same Escort could bring $700 less in the Northeast than in the Midwest.

Such diverse used-car prices have played havoc on lease residuals, sending any number of independent lease companies and some dealers to the financial brink. Some industry people are working on ways to



Source: Ward's Auto Dealer, compiled from auto companies and other sources.

Table 2

counter fluctuating residual-value calculations.

One way, for example, would be to dial in factors other than simple historical data when determining that value.

Instead of just looking at a five-year-old Cadillac to determine what a current model's residual value should be five years from today, such factors as the economic condition of the market, possible or probable model changes, and major national economic issues (such as the prospect of a recession) could be factored into estimates of the final residual value.

But calculating final residual value is difficult at best, say lessors and dealers, who prefer using an average of the three major used-car guide books and/or rates the competitors quote.

Every maker — new and old nameplate alike — wants to get its share of the up-and-coming leasing business.

"Toyota Motor Credit Corp. will have a lease program for Lexus customers," says Dave Illingworth, vice president and general manager of Toyota's new luxury car division. "Leasing is critical for Lexus to grow."

That's something noted by floundering Audi Division of Volkswagen AG. Audi chief Richard Mugg admits that his company "needs to do a better job of getting our lease share up (from 10 percent to 20 percent of deliveries)."

But for people who pride themselves on ownership, there has to be a way to eventually call the vehicle theirs. That's where the dealers play an important part in the future of leasing.

Master merchandiser Cal Worthington recently launched an advertising campaign in Los Angeles that never mentions the word lease.

Instead he uses "rental purchase" as the catch phrase. He calms any resistance to leasing by concentrating his pitch on the customer's option to buy the car at the end of the term, with a portion of the monthly payments going toward the purchase price.

Is Middle America really ready for leasing?

"With the average car loan now hitting 57 months, people are beginning to realize that when the contract is paid off, all they have left is a bucket of bolts that needs replacing," argues Thee. "So why not lease the car." AF

This article was written by Art Spinella, West Coast editor of Ward's Auto Dealer, *and is reprinted with his permission.*

USED CARS

The following are average used-car prices for the period ending August 1, 1989. Prices are based on wholesale activity at major dealers across the country. They are divided into three zones as indicated on the accompanying map. These averages are calculated electronically in IBM machines. They are based on clean cars only. Proper allowance should be made for upgrading sharp cars and proper deduction taken for fair cars. Automatic transmissions have been included in the averages of all models. This information is published in *Automotive Fleet* by special permission of Automotive Market Report.

Model	Zone 1	Zone 2	Zone 3
88 BUICK SKYHAWK			
Coupe	6,305	6,367	6,178
Sedan	6,393	6,455	6,262
87 BUICK SKYHAWK			
Cust Coupe	5,152	5,204	5,049
Cust Sedan	5,231	5,283	5,126
88 BUICK SKYLARK			
Cust Sedan	7,738	7,817	7,586
87 BUICK SKYLARK			
Cust Sedan	6,493	6,556	6,364
88 BUICK CENTURY			
Cust Sedan	7,801	7,877	7,643
87 BUICK CENTURY			
Cust Sedan	6,542	6,607	6,411
88 BUICK LE SABRE			
Cust Sedan	9,860	9,957	9,661
87 BUICK LE SABRE			
Cust Sedan	8,235	8,315	8,067
88 CADILLAC DE VILLE			
Coupe	15,243	15,395	14,938
Sedan	15,423	15,395	14,938
87 CADILLAC DE VILLE			
Coupe	12,675	12,801	12,420
Sedan	12,830	12,959	12,574
88 CADILLAC SEVILLE			
Sedan	16,550	16,717	16,220
87 CADILLAC SEVILLE			
Sedan	14,042	14,183	13,761
88 CHEVY BERETTA			
Coupe	7,472	7,544	7,322
88 CHEVY CORSICA			
Sedan	7,017	7,086	6,876
87 CHEVY BERETTA			
Coupe	5,965	6,025	5,844
87 CHEVY CORSICA			
Sedan	5,512	5,569	5,403
88 CHEVY CAVALIER			
Sedan	6,114	6,176	5,995
87 CHEVY CAVALIER			
Sedan	4,760	4,808	4,665
88 CHEVY CELEBRITY			
Sedan	7,371	7,446	7,225
87 CHEVY CELEBRITY			
Sedan	5,874	5,933	5,756
88 CHEVY CAPRICE			
Sedan	8,268	8,352	8,101
87 CHEVY CAPRICE			
Sedan	6,766	6,833	6,630
88 CHRYSLER NEW YORKER			
Sedan	11,587	11,702	11,353
87 CHRYSLER NEW YORKER			
Sedan	8,249	8,335	8,087
88 CHRYSLER FIFTH AVENUE			
Sedan	11,251	11,362	11,023
87 CHRYSLER FIFTH AVENUE			
Sedan	8,874	8,962	8,696
88 DODGE ARIES AMERICA			
Sedan	5,715	5,772	5,601
87 DODGE ARIES			
Sedan	4,655	4,702	4,561
88 DODGE SHADOW			
Liftbk 5 Dr	6,029	6,088	5,909
87 DODGE SHADOW			
Liftbk 4 Dr	5,032	5,082	4,931
88 DODGE DYNASTY			
Sedan	9,071	9,161	8,887
88 FORD ESCORT			
Htchbk 4 Dr GL	5,161	5,214	5,059
87 FORD ESCORT			
Htchbk 4 Dr GL	4,165	4,206	4,079
88 FORD MUSTANG			
LX-4 Coupe	6,899	6,970	6,763
87 FORD MUSTANG			
LX-4 Coupe	5,643	5,700	5,529
88 FORD TEMPO			
GL Sedan 4 Dr	6,121	6,184	5,998
87 FORD TEMPO			
GL Sedan 4 Dr	5,078	5,127	4,976
88 FORD TAURUS			
GL Sedan 4 Dr	8,334	8,418	8,169
87 FORD TAURUS			
GL Sedan 4 Dr	6,830	6,899	6,692
88 FORD CROWN VICTORIA			
Sedan	10,528	10,635	10,319
87 FORD CROWN VICTORIA			
Sedan	8,756	8,844	8,584
88 FORD THUNDERBIRD			
Coupe	9,365	9,462	9,180
87 FORD THUNDERBIRD			
Coupe	7,802	7,881	7,646
88 LINCOLN			
Town Car Sedan	15,601	15,755	15,288
Mark VII Coupe	17,364	17,539	17,015
Continental Sedan	19,283	19,477	18,897
87 LINCOLN			
Town Car Sedan	13,147	13,277	12,883
Mark VII Coupe	14,083	14,225	13,802
Continental Sedan	14,328	14,470	14,038
88 MAZDA 626			
LX Sedan 4 Dr	9,011	9,100	8,830
88 MERCURY COUGAR			
LS Coupe	9,812	9,910	9,618
87 MERCURY COUGAR			
LS Coupe	8,212	8,293	8,049
88 MERCURY TOPAZ			
GS Sedan 4 Dr	6,250	6,311	6,123
87 MERCURY TOPAZ			
GS Sedan 4 Dr	4,973	5,021	4,870
88 MERCURY SABLE			
GS Sedan	8,463	8,547	8,294
87 MERCURY SABLE			
GS Sedan	6,907	6,973	6,769
88 MERCURY GRAND MARQUIS			
Sedan	11,092	11,201	10,868
87 MERCURY GRAND MARQUIS			
Sedan	9,342	9,434	9,153
88 NISSAN SENTRA			
Sedan 2 Dr	4,822	4,871	4,726
88 NISSAN STANZA			
E Ntch 4 Dr	8,053	8,133	7,891
88 NISSAN MAXIMA			
SE Sedan	12,127	12,249	11,884
87 NISSAN SENTRA			
Sedan 2 Dr	3,962	4,001	3,881
87 NISSAN STANZA			
E Ntch 4 Dr	6,282	6,345	6,156
87 NISSAN MAXIMA			
SE Sedan	9,509	9,602	9,318
88 OLDS CIERA			
Coupe	7,717	7,793	7,563
Sedan	7,801	7,877	7,643
87 OLDS CIERA			
S Coupe	6,525	6,591	6,395
Sedan			
88 OLDS CALAIS			
Sedan	7,683	7,761	7,531
87 OLDS CALAIS			
Sedan	6,501	6,565	6,371
88 OLDS CUTLASS SUPREME			
Coupe	8,917	9,007	8,739
87 OLDS CUTLASS SUPREME			
Coupe	7,535	7,610	7,386
Sedan	7,535	7,610	7,386
88 OLDS 98 REGENCY			
Sedan	11,584	11,701	11,352
87 OLDS 98 REGENCY			
Sedan	9,644	9,739	9,452
88 PLYMOUTH RELIANT			
Sedan	5,715	5,772	5,601
87 PLYMOUTH RELIANT			
Sedan	4,669	4,716	4,575
88 PLYMOUTH SUNDANCE			
Liftbk 4 Dr	6,036	6,095	5,917
87 PLYMOUTH SUNDANCE			
Liftbk 4 Dr	4,988	5,042	4,891
88 PLYMOUTH GRAN FURY			
Salon Sedan	6,495	6,559	6,366
87 PLYMOUTH GRAN FURY			
Salon Sedan	5,251	5,303	5,147
88 PONTIAC SUNBIRD			
SE Coupe	6,349	6,413	6,222
Sedan	6,434	6,497	6,305
87 PONTIAC SUNBIRD			
SE Coupe	5,020	5,070	4,917
Sedan	5,167	5,221	5,065
88 PONTIAC 6000			
Coupe	7,485	7,558	7,334
Sedan	7,567	7,644	7,415
87 PONTIAC 6000			
Coupe	6,044	6,104	5,924
Sedan	6,115	6,176	5,994
88 PONTIAC GRAND AM			
Sedan	7,542	7,616	7,392
87 PONTIAC GRAND AM			
Sedan	6,721	6,790	6,586
88 PONTIAC BONNEVILLE			
Sedan	9,728	9,827	9,533
87 PONTIAC BONNEVILLE			
Sedan	8,261	8,347	8,095
88 PONTIAC GRAND PRIX			
Coupe	9,070	9,160	8,890
87 PONTIAC GRAND PRIX			
Coupe	7,553	7,628	7,403
88 TOYOTA COROLLA			
Sedan 4 Dr Deluxe	6,780	6,848	6,645
88 TOYOTA CAMRY			
Sedan 4 Dr Deluxe	9,490	9,585	9,301
88 TOYOTA CRESSIDA			
Lux Sedan	14,207	14,350	13,923
87 TOYOTA COROLLA			
Sedan 4 Dr Deluxe	5,524	5,578	5,412
87 TOYOTA CAMRY			
Sedan 4 Dr Deluxe	8,091	8,173	7,931
87 TOYOTA CRESSIDA			
Lux Sedan	11,640	11,754	11,405
88 VOLKSWAGEN JETTA			
Sedan 4 Dr	7,510	7,584	7,361
87 VOLKSWAGEN JETTA			
Sedan 4 Dr	6,279	6,342	6,153

CALENDAR

SEPTEMBER

10-14—American Association of Motor Vehicle Administrators Annual Conference, Fairmont Hotel, New Orleans, LA. Information: (703) 522-4200.

13-16—National Association of Fleet Resale Dealers Fifth Annual Conference, Las Vegas Tropicana Hotel, Las Vegas, NV. Information: (213) 838-3168.

15-19—1989 International Baking Industry Exposition, Las Vegas Convention Center, Las Vegas, NV. Information: (202) 296-5800.

17-18—American Automotive Leasing Association's Mid-Year Meeting, Four Seasons Hotel, Chicago, IL. Information: (202) 223-2600.

20-22—Natural Gas Vehicles Conference, Hyatt Regency, Capitol Hill, Washington, DC. Information: (703) 841-8661.

24-27—Consumer Bankers Association Conference, Hyatt Regency Grand Cypress, Orlando, FL. Information: (703) 276-1750.

24-27—National Conference of State Fleet Administrators Third Annual Meeting, Red Lion Lloyd Center, Portland, OR. Information: (606) 231-1880.

OCTOBER

5-7—Automotive Fleet & Leasing Association Mid-Year Conference, The Ritz-Carlton Buckhead, Atlanta, GA. Information: (213) 376-8788, ext. 77.

18-22—National Auto Auction Association Annual Convention, Marriott Hotel & Marina, San Diego, CA. Information: (402) 646-2170.

NOVEMBER

16-19—CATRALAS' Western Regional Conference, Newporter Hyatt Resort, Newport Beach, CA. Information: (202) 223-2118.

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GAS PRICES

UNLEADED

City	Cost Per Gallon Unleaded Full-Serve	Self-Serve
Juneau, AK	167.4¢	152.2¢
Kingman, AZ	160.6	122.4
Oakland, CA	154.4	119.6
Denver, CO	141.4	116.2
Hartford, CT	137.2	116.2
Chicago, IL	156.2	114.6
Kansas City, KS	126.2	107.2
Padu ah, KY	129.9	98.9
Worcester, MA	117.9	97.9
Iron Mountain, MI	109.9	104.9
St. Charles, MO	114.4	89.9
Wilmington, NC	134.9	103.6
Reno, NV	148.4	110.4
Uniontown, PA	116.0	98.9
Everett, WA	138.9	98.9

Survey conducted during the first five working days of August 1989.
Supplied by Runzheimer International, Runzheimer Park, Rochester, WI.

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october 1989

automotive FLEET

CAR AND LIGHT TRUCK FLEET AND LEASING MANAGEMENT MAGAZINE

New Model Issue

'90 Car/Truck
Analysis By Class

Is Leasing Better?
Surge In U.C. Buybacks
How Firms Value Safety
Weighing Van Specs

automotive
FLEET®
CAR AND LIGHT TRUCK FLEET AND LEASING MANAGEMENT MAGAZINE

BOBIT PUBLISHING

OCTOBER 1989
VOL. 28, NO. 12

Influencing the management of
4,952,000 cars and 2,070,000 light trucks
and vans in business, leasing, rental,
utility, government, police and taxi fleets.

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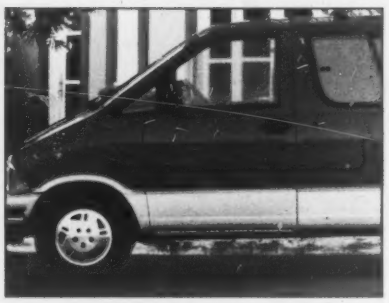

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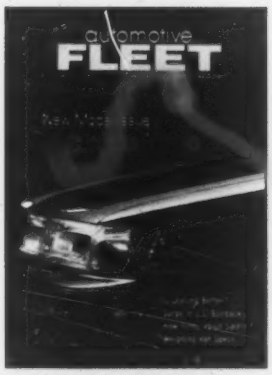

On the cover: Featured is a close-up shot of the LS 400, the flagship of Toyota's all-new luxury car division — Lexus. The 1990-model sedan is powered by a 4.0L V-8 engine.

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The main thrust behind the steady growth of auto auctions has been the vast number of daily rental program vehicles being remarketed by the manufacturers, but fleets are relying more on auctions for their resale needs, too.

Buybacks, Fleets Help Auctions Surge

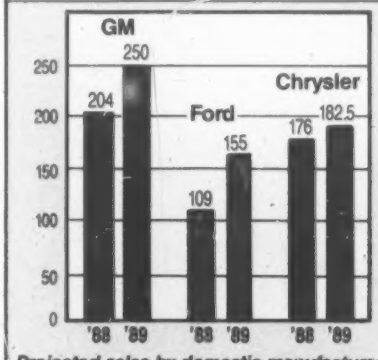
In 1988, the National Association of Fleet Administrators' annual survey on used vehicle remarketing asked a sampling of members, among other questions, which methods they employed most often to sell used fleet vehicles. Since the overwhelming majority utilized auto auctions most often, the survey's structure was changed, compared to the year before.

For instance, in 1987, auctions and wholesalers had been combined as one category. In 1988, auctions were a separate category because they were the remarketing tool for 35 percent of U.S. commercial fleet vehicles managed by more than 300 respondents; 49 percent of government fleet vehicles, and 72.5 percent of public utility fleet vehicles.

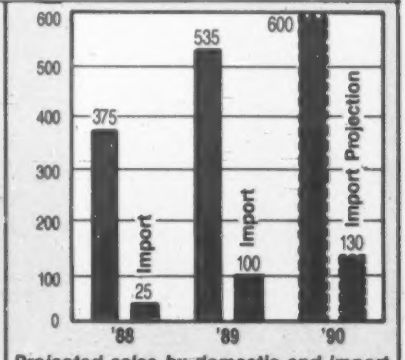
The results of the 1989 NAFA survey offer further evidence of the growing use of auctions among fleets. Auctions remarketed 41 percent of U.S. commercial fleet vehicles managed by 235 respondents; 27 percent of government fleet vehicles, and 52 percent of public utility fleet vehicles.

Another segment of the automotive fleet market—daily rental cars—is also fueling the growth of auctions. Program cars, as they are called, are sold to car-rental companies by manufacturers with guaranteed depreciation rates or agreements to repurchase a certain percentage for remarketing at closed auctions. Percentages of vehicles on these plans vary from manufacturer to manufacturer and model to model. The volume going to auctions, though, is significant—between 600,000 and 700,000 domestic and imported vehicles are projected for calendar-year 1989.

Buybacks of Daily Rental Program Vehicles



Projected sales by domestic manufacturers of used daily rental fleet vehicles. Figures in thousands of units.



Projected sales by domestic and import manufacturers of used daily rental fleet vehicles. Figures in thousands of units.

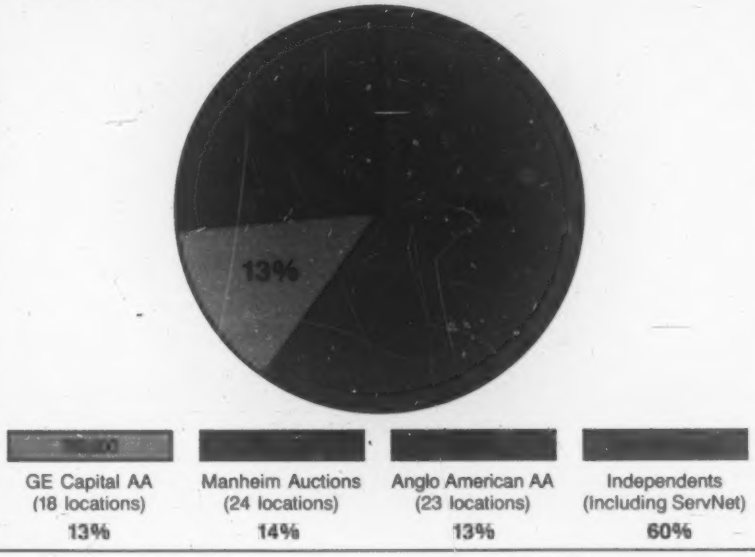
The Past

From the time Henry Ford gave the first manufacturer rebate—reportedly $40 on a Model-T in 1941—factory programs and incentives have been present in the car business. Starting in 1985, though, a flood of late-model, low-mileage rental vehicles inundated auctions. A host of vehicles also were coming from other sources, including fleets, banks, leasing companies, and captive financiers.

"What's important to understand about factory programs with rental cars is they are yet another avenue by which manufacturers expose the products to retail customers who otherwise may never have a chance to see or drive a certain vehicle," says Michael Moumousis, vice president of marketing for Atlanta-headquartered Manheim Auctions, owners and operators of 24 auction facilities throughout the United States and Canada. "A person can be on the road for business and rent a Ford Probe or a Lumina or a New Yorker and think, "I wonder how

1989 Auto Auction Total Sales

Industry officials estimate as many as six million vehicles, on consignments of approximately eight million cars and trucks, will be sold through U.S. auto auctions in calendar year 1989.



much it costs?" or "Maybe for my next car . . . ," so the exposure is beneficial."

The Present

During 1989, General Motors is projecting approximately 250,000 program vehicles will be remarketed through auctions, an increase over 1988's figure of 204,000. Ford Motor Co. expects to top its 1988 total of 109,000 program vehicles sold at auction with roughly 155,000 by the end of 1989. Chrysler also projects an increased volume of these vehicles going to auctions in 1989. According to a spokesman for Chrysler, in 1988, 176,000 vehicles with guaranteed depreciation rates were remarketed through auto auctions. The official projects auction sales of as many as 190,000 program vehicles by the end of 1989.

Import companies are getting a piece of the action, too, as most have similar repurchase/guaranteed buyback programs with daily rental companies, although the volume is obviously smaller compared to the Big Three.

Between 1988 and 1989, the emergence of substantial numbers of import rental cars really became evident. The growth can be attributed, on one hand, to the increased availability of product. On the other hand, a majority of the rental companies (many of which are partially owned by one of the domestic automobile manufacturers) want to offer a mixture of vehicles, both foreign and domestic. Also, the importers have to stay competitive.

The pace at which rental cars are taken out of service and transported to auctions for resale is frequent. The service life of a rental vehicle can be as low as four months and as high as 15 months, and the industry average is about eight or nine months.

The Auctions

How are vehicles, including program cars, being distributed among the many auctions across the country? There are three large auction chains commandeering approximately 40 percent of what is expect-

See the listing below for locations and telephone numbers of our auctions.

Albuquerque Auto Auction Inc.
505/883-7772

Amarillo Auto Auction Inc.
806/358-3663

Aptco Auto Auction Inc. (Detroit)
313/285-7300

Arena Auto Auction Inc. (Chicago)
312/759-3800

Baltimore-Washington Auto Exchange Inc.
301/796-8899

Bayside Auto Auction of Tampa Inc.
813/620-3600

Capital Auto Auction Inc. (Columbia, SC)
803/794-9051

Colorado Springs Auto Auction Inc.
719/392-3406

Dallas Auto Auction Inc.
214/264-2344

Dealers Auto Exchange of Tucson Inc.
602/574-2222

Fort Wayne Vehicle Auction Inc. (Indiana)
800/999-2150
219/422-9577

Golden Gate Auto Auction Inc. (San Francisco)
415/657-5660

Lauderdale—Miami Auto Auction Inc.
305/791-3520

Metro Auto Auction of Kansas City, Inc. (Missouri)
816/525-1100

Minneapolis Northstar Auto Auction Inc.
612/445-5544

Mississippi Auto Auction Inc. (Hattiesburg)
601/268-7550

Nashville Auto Auction, Inc.
615/244-2140

Omaha Auto Auction Inc.
402/896-8000

Puget Sound Auto Auction, Inc. (Seattle, WA)
206/735-1600

Southern States Vehicle Auction of Atlanta Inc.
800/223-2150
404/681-1618

Tri-City Auto Auction, Inc. (Pasco, WA)
509/547-1701

West Palm Beach Auto Auction, Inc.
407/790-1200

Auction Transport Inc.
800/233-1161

Anglo American Auto Auctions Inc.
435 Metroplex Drive
Nashville, Tennessee 37211
615/333-1400

ed to be a total market of six million vehicles in 1989.

GE Capital Auto Auctions operates 18 facilities. Liese Spiegelberg, vice president of sales and marketing, indicates that overall sales throughout the chain in 1989 are projected at 760,000 units, a seven percent increase from the previous year.

Walt Bodine, Manheim's vice president of administration, confirms that his chain's 24 facilities will sell approximately 825,000 vehicles in 1989, outdistancing 1988's total by about eight percent.

And at Anglo American Auto Auctions, an estimated 780,000 vehicles—an increase of roughly 12 percent over 1987—will be sold at its 23 locations this year.

Independent auctions handle the remaining 60 percent of the business, or about 3.6 million units overall. Alexis Jacobs, current president of ServNet, a nine-member cooperative network of independent auctions, says that six of the nine hold closed sales of program cars for dealers of one or more of the domestic factories, and each member tabulates sales of repurchase and guaranteed depreciation vehicles individually. Jacobs' location, Columbus Fair Auto Auction, has had a 20-percent increase in sales of daily rental cars through a guaranteed repurchase plan from Chrysler.

When program vehicles reach an auction, they aren't there long. Displayed for bidding at special sales limited to a manufacturer's dealers, almost 100 percent are sold, a much higher rate than other types of vehicle auctions.

Auction officials claim that sales rates for fleet (non-rental) and lease vehicles are close to 75 percent and vehicles from dealers sell at a 50-percent clip; a virtual switching of positions from 1985, just prior to when auction volume began surging.

The Future

All indications suggest that the boomi[illegible]usiness at auto auctions will continue. Rental fleets are experiencing growth in size and business, and the auctions certainly are capable of handling the remarketing.

"The success of daily rental programs has created volume business at auctions, and more centers are opening up, offering more cars," says the Chrysler official. "I foresee this continuing, as manufacturers keep offering aggressive programs."

The fleet market and its many facets—rental units, off-lease vehicles, volume from large commercial fleets—undoubtedly have helped auctions grow significantly. "Yes, the fleet market is a significant reason for the growth of auto auctions, but the auto auctions have also had a direct impact on the growth of the fleet market as well," says Moumousis. "The cliché 'time is money' has never been truer, especially in the

 Circle 130 on Inquiry Card

microwave environment of fleet remarketing. Once a vehicle is taken out of service, the meter counting interest and depreciation is ticking, exposing the fleet accounts to significant losses in earned revenue. Auctions offer the fleet account the fastest method available to change large numbers of vehicles into cash and minimize that exposure. All around, it is a very good marriage."

"Almost every auction, be it independent or property of one of the big chains, offers factory sales of program vehicles," says Don Fowler, a former GE executive who is now an independent vehicle remarketing specialist and a consultant to ServNet. "They are not judged by anything other than the ability to do the job, plus maybe geographic location. Auctions were around long before factory programs emerged. Many factors have to be considered to determine if buybacks will continue at the present volumes. Production, marketing, and other aspects all play a part."

Auctions have become the most convenient method to remarket large volumes of used vehicles, especially for fleets. Sales to employees also are high, and are generally a more profitable method, but when the question is speed and service, auctions can provide both. AF

Buybacks: Reality vs. Misconception

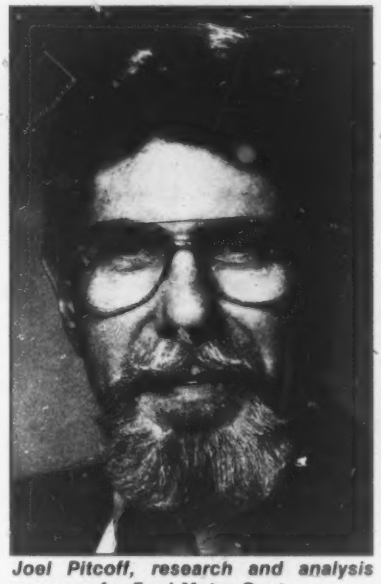
In a research paper titled *Daily Rental Cars and Used Car Values—What's Really Happening and Why?* Joel Pitcoff, research and analysis manager for Ford Motor Co., addresses several analyses that have contended the auto industry confronts a new "crisis," an alleged "glut" of deeply discounted used cars being "dumped" by daily rental companies.

The paper examined 10 popular misconceptions that potentially lead to erroneous or exaggerated judgments about the actual market situation. Pitcoff concluded that:

- The used-car market and its interaction with the new-car market, especially those new cars sold to the daily rental companies, are much more complex than is commonly understood or acknowledged, and
- A closer examination of these relationships dispels the notion that either this year's growth in the size of the daily rental market or its used vehicle disposition practices contains the "seeds of destruction" for the continued robustness of the retail new-car business.

In his paper, Pitcoff said "some of the analyses are flawed because they are based, perhaps innocently, on a number of misconceptions.

The first misconception Pitcoff points out is that daily rental cars are the dominant fleet vehicles, and that there are "millions" coming out of service this year. In reality, the total number of cars purchased annually by rental companies is between 750,000 and 800,000 units, a figure representing about 35 percent of all fleet purchases. Usually, these vehicles are replaced after anywhere from four to 15 months.



Joel Pitcoff, research and analysis manager for Ford Motor Co.

Pitcoff says that Ford's 1989 sales to rental companies will be about 10 percent more than in 1988. Based on that, and anticipating "normal growth" in rental fleet sales for Ford, Pitcoff estimates that total growth for the rental market this year will be 75,000 to 80,000 units.

Pitcoff uses this figure to dispel the second misconception that incremental daily rental units coming out of service this year will have a major impact on the total used-car market. "Not surprisingly, it is difficult to quantify the size of the used vehicle market with precision, since there are so many private transactions," he said.

Pitcoff points out the National Automobile Dealers Association's estimate of slightly more than 10 million retail used vehicles sold by franchised *new* car dealers in calendar-year 1988. He says the true figure of used vehicles changing hands is double this, according to "rule of thumb" measurement. "Accordingly, the estimated 75,000 to 80,000 incremental daily rental units can be said to cause the supply of used vehicles to rise by a minuscule .35 to .40 percent," he said.

Another misconception is that huge manufacturers' discounts reduce fleet prices below those paid by retail customers, who ultimately subsidize fleet buyers. In reality, Pitcoff claimed, retail customers can get more generous incentives from "the factory" than fleets can. He uses the 1989 Ford Tempo as an example, although not an isolated one. "Ford's fleet customers are eligible for *either* a $600 fleet incentive or the $1,000 preferred equipment package discount offered to retail Tempo customers.